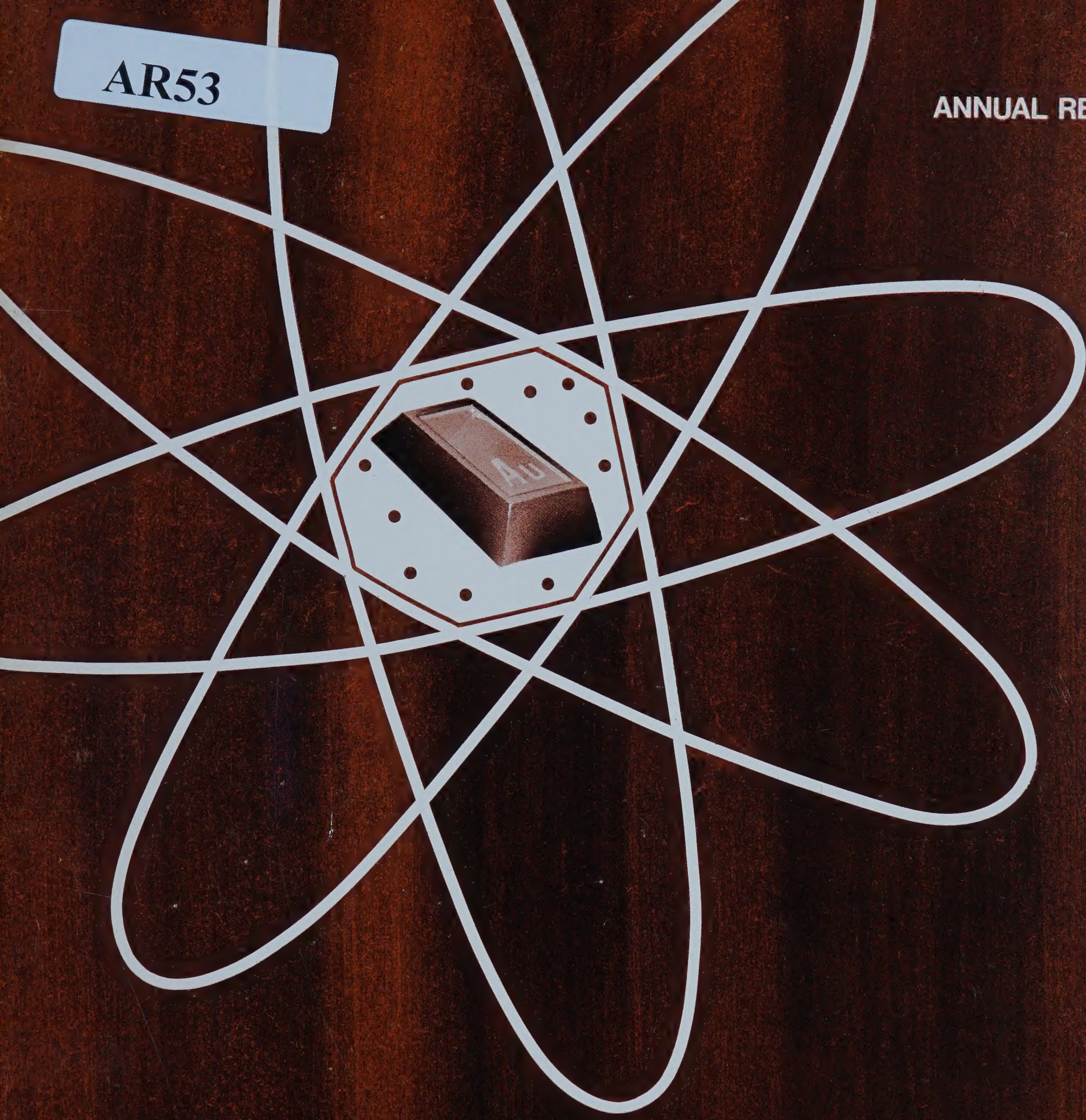
ANNUAL REPORT 1975

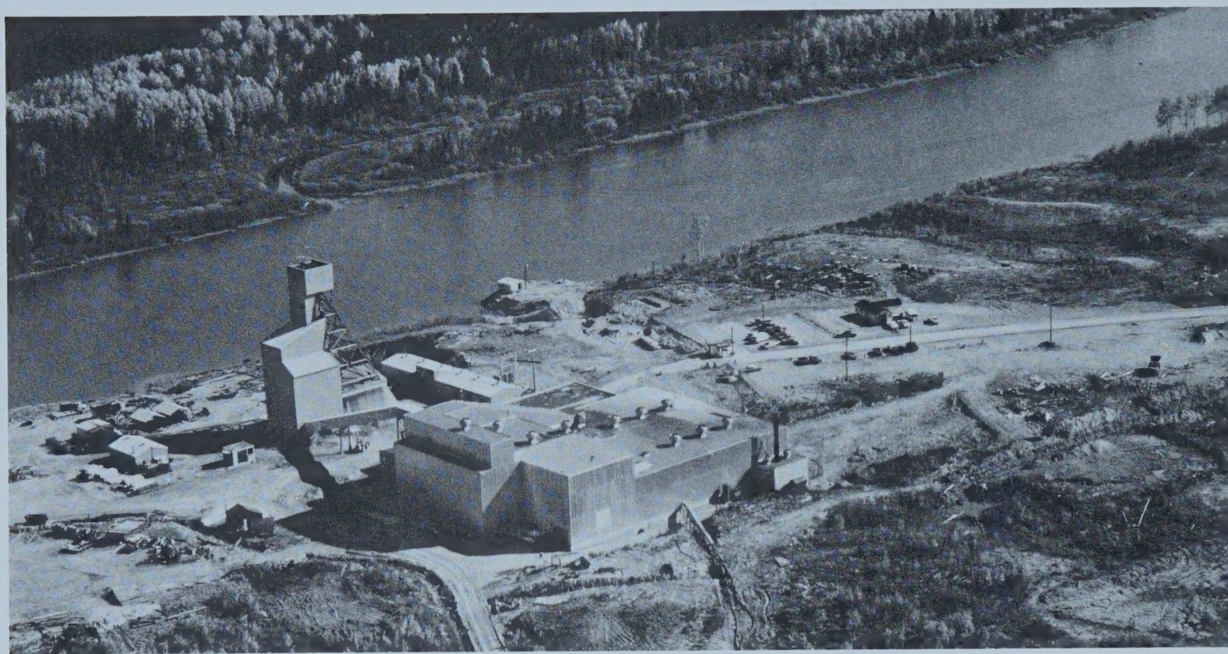


mentor
EXPLORATION AND
DEVELOPMENT CO. LIMITED

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

Executive and Head Office	Suite 300, 365 Bay Street, Toronto, Ontario M5H 2V1
Directors	ARCHIE BASEN IRVING DOBBS PHILIP DRUTZ GORDON W. KIRK, P.Eng. PAUL PENNA ALBERT WASSERMAN
Officers	PAUL PENNA, *President* MIKEY DRUTZ, *Secretary-Treasurer*
Consulting Geologist	W. A. HUBACHECK, B.Sc., P.Eng.
Transfer Agent and Registrar	GUARANTY TRUST COMPANY OF CANADA Toronto, Ontario
Auditors	STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL Chartered Accountants Toronto, Ontario
Solicitors	SHIBLEY, RIGHTON & McCUTCHEON Toronto, Ontario
Shares Listed	TORONTO STOCK EXCHANGE Toronto, Canada
Annual Meeting	June 25, 1976, 11:30 a.m. (Toronto Time), Library Room, Royal York Hotel, 100 Front Street West, Toronto, Ontario

A view looking north across the surface plant at the Joutel Township (Quebec) gold mine of AGNICO-EAGLE MINES LIMITED. The new mill extension is about centre in the foreground of the building. The new flotation and grinding facilities have improved recoveries above 90% an increased to at least 1,200 tons daily. Current milling rate is being held at around 1,000 tons daily.



The original AGNICO-EAGLE owned houses are slightly right of centre at the top of the picture with five additional homes recently purchased just below. Agnico-Eagle also owns three apartment block buildings as well as single staff trailer accommodation plus main bunk in the Town of Joutel, Quebec.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors present the audited financial statements of the Company for the year ended December 31, 1975 together with the following review of corporate activities and principal investments.

Your Company is strongly oriented toward gold mining, both in respect of its principal investments and exploration activities. The Company also holds a well located uranium property in the Elliot Lake area of Ontario which is the leading uranium producing district in Canada. The Company's uranium property is contiguous to the south boundaries of the former producing Stanrock mine and the Can-Met mine, both of which are now owned by Denison Mines Limited.

As shown on the attached financial statements, the quoted market value of the Company's investments at year end, which include shares in affiliate Sudbury Contact Mines, Limited, was slightly in excess of $4 million. The principal components of this portfolio, which in addition to Sudbury Contact includes appreciable holdings in **Agnico-Eagle Mines Limited** and **Dumagami Mines Limited,** depreciated approximately 50% from their respective highs during the year.

The basic reason for the depreciated market prices for these and virtually all other gold shares, was the uncertainty created – and sustained – by the scheduled sales of gold by the International Monetary Fund and the related decline in world gold prices.

The stage was set during the 1975 Labour Day weekend when the IMF first announced its intention to sell one-sixth of its gold holdings and return another one-sixth to the subscribing countries that put up their gold in the first place.

Perhaps ironically, this announcement came close on the heels of the June auction by the U.S. Government of 500,000 ounces, quickly snapped up by eager bidders at a price of $165.05 per ounce. In fact, there were in excess of 700 bids for over 4 million ounces.

It took nine months for the IMF to work out the mechanics of selling the gold, finally resolving the matter by announcing a series of auctions, each of 780,000 ounces to commence June 2, 1976, until the 25 million ounces have been sold. But there is a caveat. The IMF reserves the option of rejecting any or all bids if the price is not considered adequate.

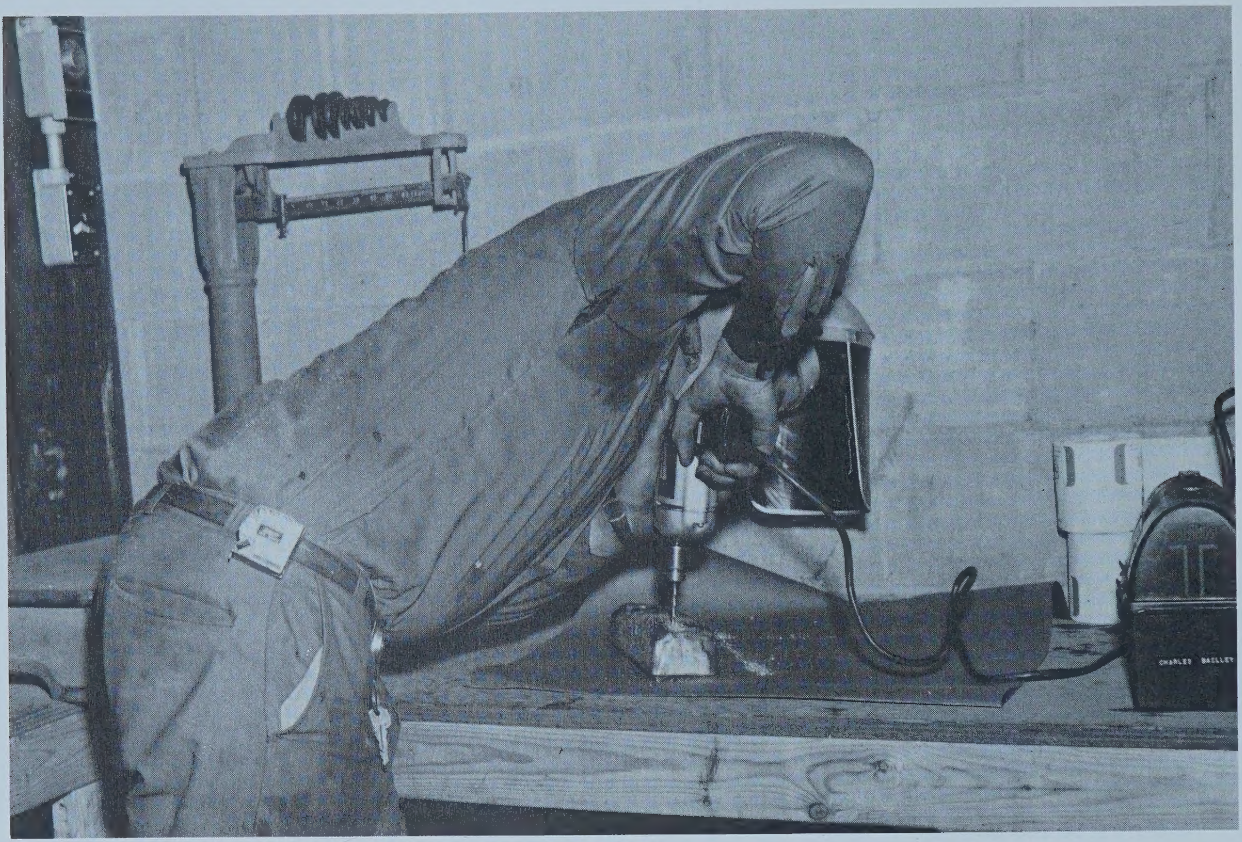
And there is a cloak of secrecy in that the IMF stated it would not disclose the identity of either the size of the bids or the bidders names! Barron's magazine (published by Dow Jones & Co. Inc.) in its May 17, 1976 issue, noted: "It is now an open secret that at the first IMF gold auction on June 2, the central banks of France, Switzerland, Holland, Belgium and even Italy will buy bullion, using the Bank for International Settlements as purchasing agent."

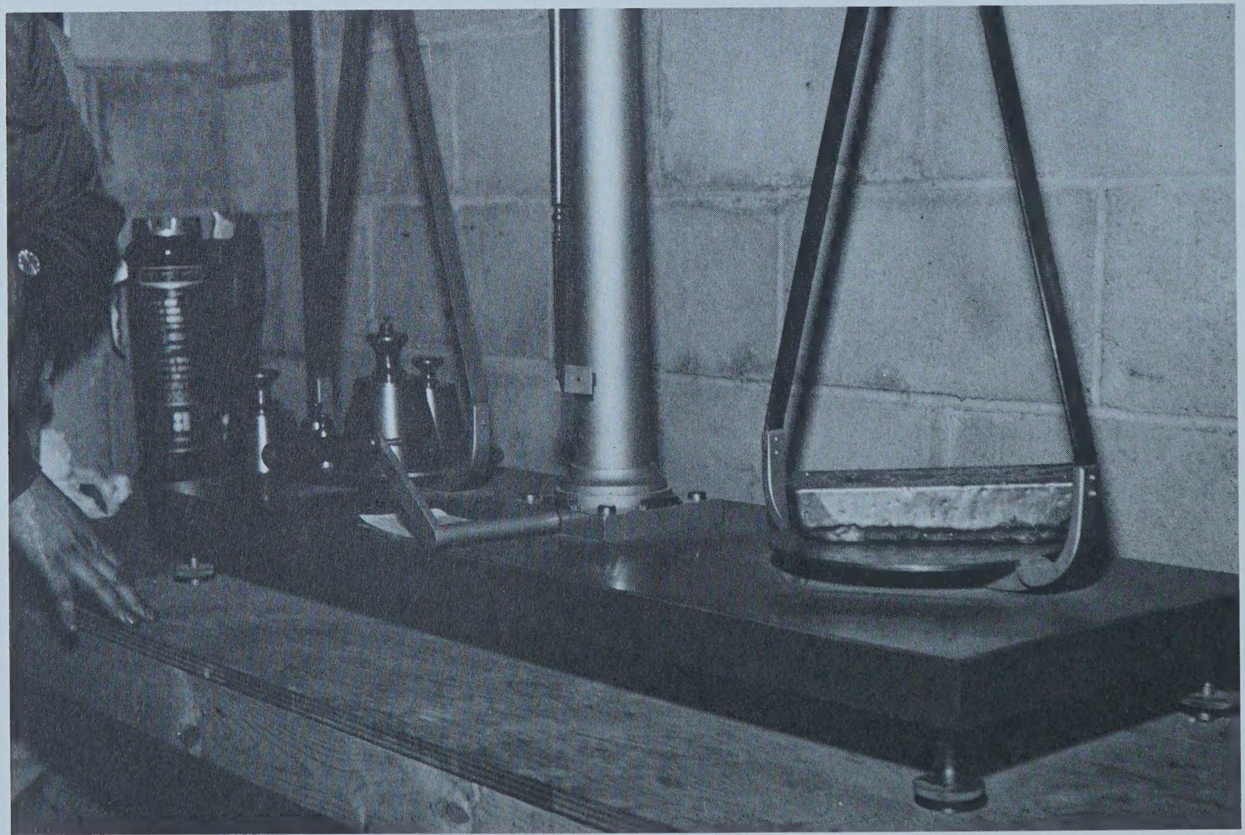
The Barron's article also made the succinct observation that " . . . the elaborate charade of selling off IMF gold is being organized with a maximum of hypocrisy."

To put the proposed sale of 25 million ounces over an approximate four year period into some kind of understandable perspective, this amount is approximately equal to just over one year's output of the South African mines or about half the entire world's annual production.

If the stated purpose of the liquidation of 25 million ounces of gold by the IMF is to benefit the developing countries, the proceeds represented by the difference between the fictional "official" price of $42.22 per ounce and the recent world price of $128.00 per ounce, will be very modest indeed viewed against the 1976 projected $35 billion deficit of these developing countries.

This is a scene in the refinery section of AGNICO-EAGLE MINES' gold division showing a newly poured gold bar being test-drilled for its purity.





The gold bar is then carefully weighed on this precise scale before shipment to the Royal Canadian Mint at Ottawa, Ontario, where it will be further refined.

If one assumed the entire 25 million ounces were to be sold in one year at the current price, the amount available would be slightly over $2 billion. But spread over four years and assuming future prices of up to $200 per ounce, it would still amount to only $4.2 billion, which is "chickenfeed" in today's terms of economic dealings. (The current U.S. budget, by comparison, is $412.6 billion or some 100 times greater than the largess to be bestowed upon the developing countries.)

Another interesting fact. Of the 25 million ounces to be "restituted" to the countries that put up their gold in the first place, about 18 million ounces will be returned to industrialized countries, and slightly more than half (12,755,000 ounces) going to the U.S., United Kingdom, Germany, France, Japan and Canada. The lion's share (23% or 5,735,000 ounces) goes to the U.S.

There is a consensus among responsible mining people, metal dealers and non-Keynesian economists, that the influence of the IMF gold sales has been over-emphasized, as are the possibilities of further sales by the U.S. Treasury.

The Annual Bullion Review of highly respected Samuel Montagu & Co. of London, England, stated: "Gold still represents a large element of monetary assets, and it can be safely assumed that most monetary authorities will ensure the preservation of its value."

These factors weigh heavily with respect to your Company's decisions in connection with investments in gold mining projects and budgets for gold related exploration programs.

AGNICO-EAGLE MINES LIMITED

Your Company's approximate 6.8% equity interest in Agnico-Eagle Mines Limited with a current market value in excess of $4 million, represents a major asset.

The year 1975 was the initial period of regular and sustained production at Agnico-Eagle's gold mining division, Joutel, Quebec.

The major highlights of 1975 gold mining operations were the commissioning, during December, of the new mill extension to improve the metallurgical recovery of gold as well as increase the treatment capacity; the program of underground diamond drilling probing the mine area below the 1,800 foot horizon down to a tested depth of approximately 2,250 feet; and the decision, resulting from this drilling, to proceed with a major shaft deepening project, extending the workings a further 1,100 feet to the 2,965 foot horizon, enabling the eventual opening up of seven new production levels.

Tonnage of ore treated during 1975 was below design capacity pending the installation of the new flotation section with secondary grinding which was completed and operational at year end.

A total of 309,524 tons of ore was treated during the year for an average milling rate of 848 tons daily. The calculated average grade of ore treated was 0.233 ounce of gold per ton, producing a total of 59,224 ounces of gold and 16,323 ounces of by-product silver having a combined gross value of $9,749,360.

Overall metallurgical recovery of gold for the year averaged 82.14%.

Mine operating profit from the gold division in 1975, after deducting operating expenses including mining, development, milling, assaying, mine administrative, surface and technical costs, amounted to $4,544,819. Capital expenditures at the mine during the period totalling $1,180,826, principally in connection with the new flotation and grinding facilities, resulted in a net division cash flow of $3,363,993.

The results from the new mill extension are reflected in the improved recoveries and increased treatment rates. During the month of February, 1976, the mill treated 29,021 tons grading 0.271 ounce of gold to produce 7,477 ounces of gold. The average daily treatment rate was slightly above 1,000 tons and the overall metallurgical recovery was 90.70%.

The new flotation and grinding equipment incorporated into the mill extension provides the capability of treating at least 1,200 tons of ore per day. However, owing to the amount of waste rock that has to be hoisted in connection with the current driving of the ore and waste pass system and the scheduled deepening of the shaft, operations

will be held to an approximate rate of 1,000 tons daily.

Production for 1976 is therefore expected to be about 75,000 to 80,000 ounces of gold.

Underground diamond drilling, testing the mine area below the 1,800 foot horizon down to a depth of 2,250 feet or 750 feet below the deepest production level at the 1,500 foot horizon, obtained numerous excellent intersections averaging well above ore reserve grade. The tenor of gold values obtained in this drilling suggests strong enrichment at depth.

Although the mine presently has some seven years' ore reserves ahead of mill requirements, a decision was made to proceed with a major shaft deepening project. This underground development project has the important objective of providing engineering and revised ore data for probable production expansion and substantially extended mine life.

Ore reserves at year end totalled 2,601,883 tons of an average grade of 0.27 ounce of gold per ton as compared with 2,583,600 tons averaging 0.29 ounce per ton at the end of 1974. During 1975, 327,807 tons of ore were added to reserves, more than replacing the tonnage milled in the year. It is noted that the average ore grade has been conservatively recalculated on the basis of operating experience and availability of more detailed information on geological characteristics.

Operations at Agnico-Eagle's Cobalt area silver division in 1975 were restricted due to the unavailability of refining facilities for the flotation concentrate from the milling operations. High grade concentrates were shipped to Asarco's facility in the United States. However, flotation concentrates had to be stockpiled and this forced the early shut-down of milling operations when all available concentrate storage space was filled.

Refining facilities are now available at the new plant of Canadian Smelting and Refining Limited in Cobalt, Ontario.

Production from the Cobalt silver division during the abbreviated milling period from June to August, 1975 amounted to 307,314 ounces of silver from the treatment of 17,410 tons of ore. The gross value of 1975 production from the silver division was $1,249,921.

Principal source of ore for 1976 will be the Coniagas Mine. The silver division mill commenced operation on May 17, 1976 with a scheduled rate of 300 tons per day. In contrast to the seasonal operating period of prior years, it is anticipated that production will now be continuous. Stockpile of ore at the commencement of milling operations amounted to about 45,000 to 50,000 tons of good grade material.

Current expectations are that production for the silver division during 1976 will be in the order of one million ounces or more.

Consolidated cash flow from operations of the combined gold and silver divisions in 1975 amounted to $3,466,078 and net income for the year was $1,270,332. These figures contrast with cash flow of $1,172,895 and net income of $197,826 for 1974.

DUMAGAMI MINES LIMITED

Early in 1975, your Company purchased by private placement 500,000 treasury shares of Dumagami Mines Limited at $1.10 per share for a total consideration of $550,000. In addition, a further 16,500 shares were purchased on the market during 1975 for $9,737, increasing your Company's holdings in Dumagami to 516,500 shares equal to approximately 14.5% of the latter's issued and outstanding capital.

Dumagami owns a gold-copper-silver property in Bousquet and Cadillac Townships, Quebec, about three miles from the town of Cadillac. A paved highway connecting to the Val d'Or-Montreal highway passes through the eastern part of the property and electrical power is readily available as a Quebec Hydro transmission line crosses the property. Dumagami also owns a 1,000 ton capa-

city mill and related facilities, acquired during the year and scheduled to be refurbished for processing ore from the Dumagami property.

Extensive surface diamond drilling was carried out on the property in 1963 and 1964, the results of which enabled a tonnage estimate to a depth of 800 feet of 1,120,600 tons grading 0.19 ounce of gold per ton, 0.29% copper and 0.58 ounce of silver per ton. These calculations were based on the then prevailing $35 per ounce price for gold and selective mining.

While there was insufficient drilling to estimate tonnage below 800 feet, two of the deeper holes in the 1963-1964 drilling provided indications of ore to a depth of at least 1,200 feet.

As a result of the substantial increase in world gold prices, this property was re-assessed during 1974 and the ore reserves recalculated taking in the whole of the mineralized zone, with a resultant estimate of 2,470,000 tons grading 0.095 ounce of gold, 0.14% copper and 0.27 ounce of silver per ton. In this calculation, all high assays were cut to 0.50 ounce per ton and a 25% dilution allowance used.

The concept was for an initial open pit mining operation. The potential of the project was enhanced by the location of the property with available access and hydro power and a relatively low expenditure to prepare the property for production. The existence of the mill, which could be rehabilitated and modified to treat the ore, was an important factor in the overall cost projections.

During 1975, a total of 4,476 feet of diamond drilling was completed in order to confirm pit tonnage down to 200 feet. The pit area was cleared and sufficient overburden removed to expose the ore. A road into the pit was excavated. Ore reserves were recalculated to include the 1975 drilling and revised to 2,353,000 tons grading 0.05 ounce per ton gold, 0.27 ounce per ton silver and 0.14% copper to a depth of 800 feet. This estimate reflects the cutting of high assays to 0.50 ounce and a 25% dilution.

Some 308,427 tons were available for the planned open pit mining with the remainder to be extracted by underground methods. A preproduction expenditure of $5 million was estimated for mill rehabilitation and expansion, overburden removal, surface and underground plant and preproduction development.

The capital costs for the initial phase of pilot mining was estimated at $1,285,000 including working capital of $675,000. The second stage to full production from the open pit would require a further expenditure of $1,334,000. The capital cost of the underground mining program was estimated at $2,388,650.

The foregoing cost estimates are extremely modest against the expenditure which might be considered for most other gold mining operations of similar size. There is the added advantage that, under appropriate gold prices, the mine could be phased into pilot operation at relatively low cost with some of the future capital requirements being generated from the open pit operation.

In addition to the foregoing studies, metallurgical test work on the ore was completed to the stage of resolving the mill flow sheet, which will incorporate copper flotation along with cyanidation of the flotation tailings. Design work on mill alterations required was virtually completed and a jaw crusher, mill liners, together with miscellaneous materials were purchased.

The mine was being readied for planned pilot operation at an initial rate of 500 tons daily, commencing in 1976, until a decision was taken during October, 1975 to suspend construction and development and put the project on a standby basis. Resumption of operations will require an improvement in the price of gold along with some assurance of price stability. Further financing will also be required.

Although this mine would not be viable at current gold prices, the economics would materially improve at prices of $200 per ounce or better.

Dumagami's working capital at its fiscal year ended September 30, 1975 was $73,444. Exploration and development costs during the year amounted to $260,232. Recently, Dumagami has agreed to issue 225,000 treasury shares at 56¢ per share on a private placement basis. Your Company and Noranda Mines, which is the principal shareholder, have undertaken to subscribe to this issue, subject to the approval of the regulatory authorities having jurisdiction.

This would constitute only interim financing and further monies would be required to resume operations under appropriate economic conditions, specifically a sustained higher price for gold.

Sudbury Contact Mines, Limited

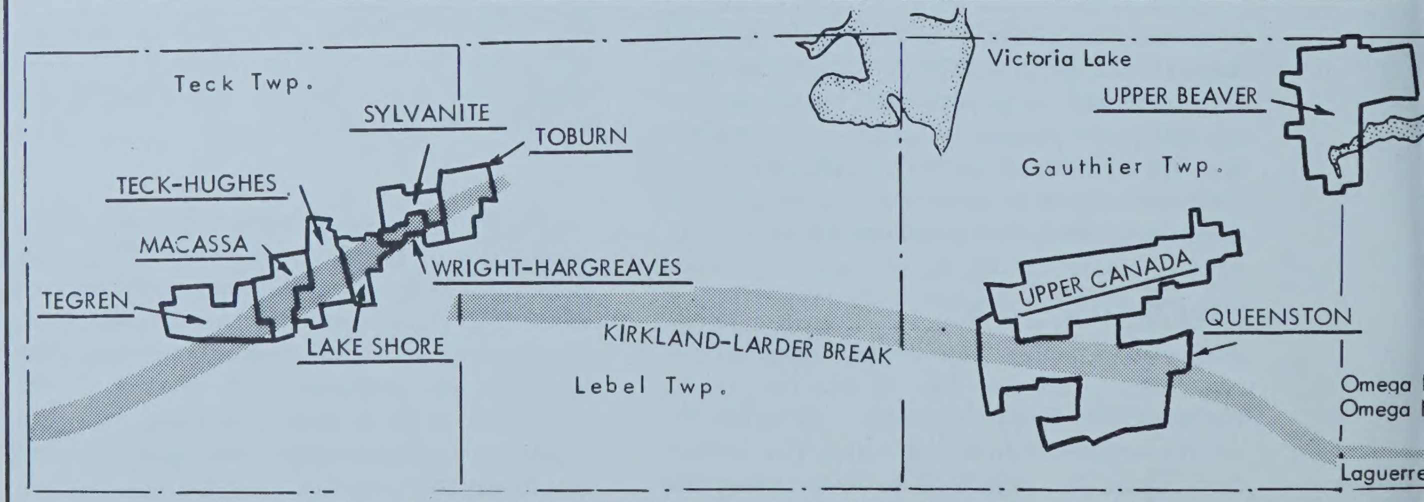
Your Company owns 1,385,582 shares or approximately 21% of Sudbury Contact. The focus of interest for Sudbury Contact during 1975 was its large assemblage of various gold properties totalling 51 claims astride the boundaries of McVittie and Hearst Townships, Kirkland-Larder Lake area, Ontario. This assemblage includes the former producing Raven River Mine and the partially developed Laguerre Gold Mine.

The closest currently producing mine is the Kerr Addison, which is about six miles to the northeast in adjoining McGarry Township. The claim block is located just south of the Kirkland-Larder break, the principal geological structure which is associated with the gold mines in this well known camp.

The 1975 program centered on the Laguerre Gold Mine property on which a shaft had been sunk by former owners with a total of 1,750 feet of lateral work on two levels, the 1st at 250 feet and the bottom level at 760 feet. A basic mine plant was established at the site, including the erection of a headframe and installation of a hoist. The workings were then dewatered and a general rehabilitation of the shaft carried out.

It was necessary to rehabilitate the 1st level at the 250 foot elevation as the headings, which were originally driven by hand, were too small for mechanical equipment. The station at this level was slashed out and a new crosscut was driven for 200 feet in order to provide drill stations to start the exploration drilling. A north drift of the crosscut was slashed out in five places for drill stations and another drift was driven 200 feet south from the crosscut.

Diamond drilling at regular intervals was carried out from both the 250 and the 760 levels dur-



SOME PRINCIPAL PROPERTIES INCLUDING PRESENT AND FORMER GOLD PRODUCING MINES

ALONG THE KIRKLAND-LARDER BREAK

showing the location of **SUDBURY CONTACT MINES LIMITED**

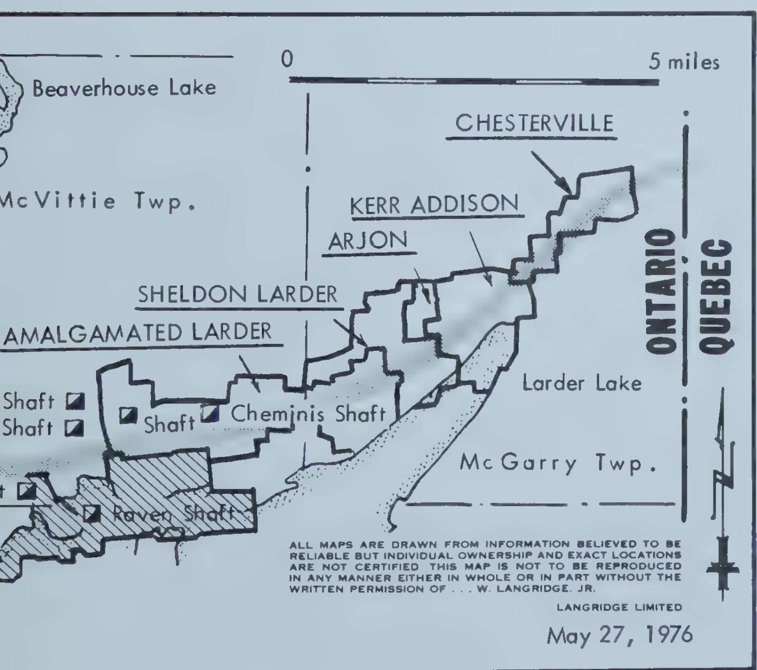
ing the period from October of 1975 to March of 1976. While most intersections were over relatively short distances of from 5 to 10 feet with values generally ranging from 0.10 to 0.375 ounce of gold per ton, there were a number of better intersections, including one that extended over 58 feet averaging 0.128 ounce of gold and a high assay of 0.415 over a core length of 25 feet.

This phase of the drilling program was completed during March and the workings are being kept pumped out in readiness for further drilling if deemed necessary after a careful evaluation of the results.

Interest in the Kirkland-Larder Lake area is continuing at a fairly high level. Recently, Canadian Nickel, a subsidiary of Inco Limited, has taken the Queenston property in nearby Gauthier and Lebel Townships under working option, and Hanna Mining a similar working option on certain portions of the Amalgamated Larder property immediately to the north of the Sudbury Contact claim assemblage.

Lake Expanse Gold Property – Quebec

Your Company purchased this 13-claim gold property from McIntyre Mines Limited in December, 1974 for $50,000 cash. This 660 acre property, located in Guillet Twp., in the Belleterre area, is contiguous to the southeast of the former gold producing Belleterre Mine. The Belleterre Mine, prior to closure in 1959, produced 763,293 ounces of gold from the treatment of 2,396,992 tons of ore with a recovered average grade of 0.32 ounce of gold per ton. The value of this production at the then prevailing $35 price for gold was approximately $27 million.



Belleterre was a subsidiary of McIntyre during this period of production and the adjoining Lake Expanse property now held by Mentor was purchased for cash by Belleterre Quebec Mines Limited in 1948. When McIntyre sold the Belleterre company in 1963 it retained the Lake Expanse claims until the sale to Mentor.

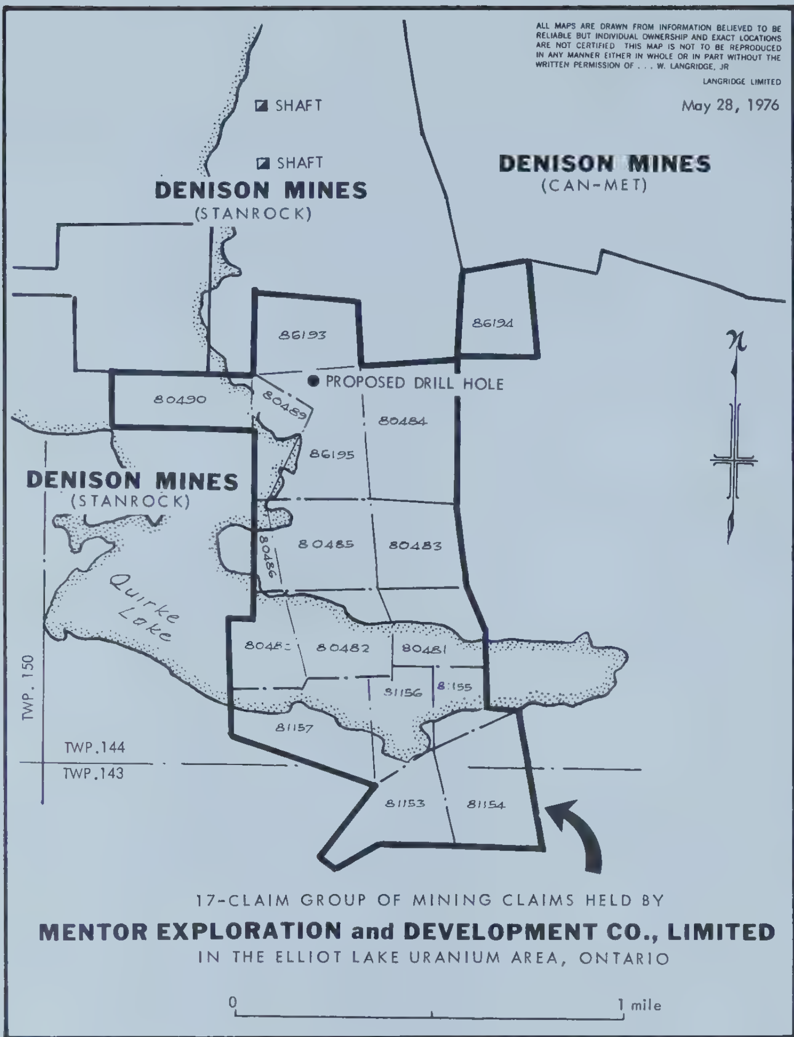
There are nine known main showings of interest on the Lake Expanse property including the No. 5 Shaft area where a shaft was sunk to a depth of 150 feet and 350 feet of lateral work carried out on that level. A raise was driven from one of the mineralized sections through to surface near the shaft collar. Gold values in the raise over a distance of 250 feet showed a length of 110 feet averaging 0.377 ounce of gold per ton across 3.6 feet; 35 feet averaging 0.04 ounce across 2.9 feet; and 60 feet averaging 0.356 across 3.1 feet.

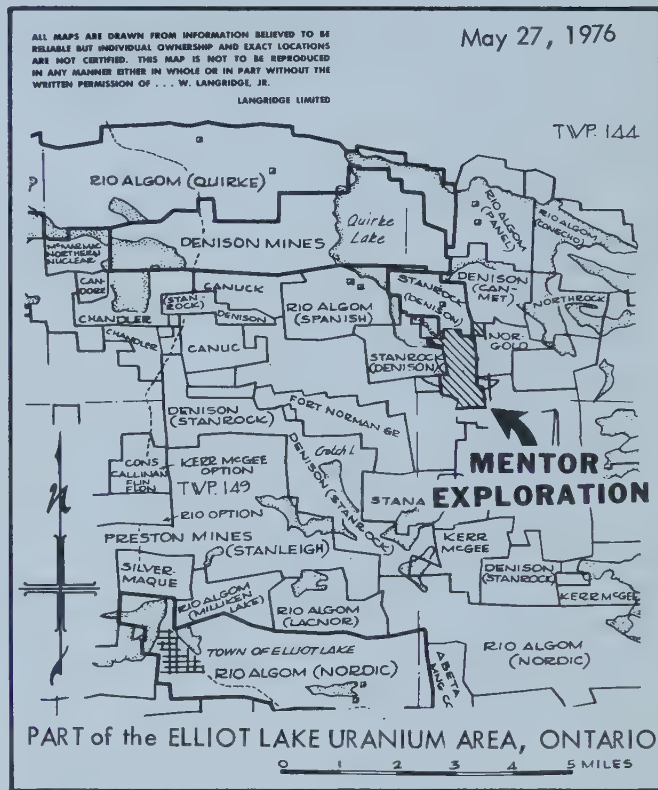
A preliminary program of surface reconnaissance prospecting was carried out by your Company late in 1975 including a review of prior work and geological mapping in preparation for the diamond drilling program which is scheduled for the 1976 season. An extensive program of surface drilling will be conducted, initially with holes investigating known gold occurrences associated with the main showings previously explored by drilling and trenching, as well as the work carried out in the No. 5 Shaft area.

Among the areas of prime interest is the No. 1 Zone where three adjacent lenses near the north part of the zone were trenched and sampled with the following reported values:

Lens 1 – 55 feet long at 0.459 oz/ton with a width of 6.5 feet

Lens 2 – 45 feet long at 0.263 oz/ton with a width of 3.6 feet





Lens 3 – 69 feet long at 0.202 oz/ton with a width of 8.1 feet

At the southern end of Zone 1, an earlier diamond drill hole intersected a zone assaying 0.91 ounce of gold per ton across 7.4 feet.

This property is considered to offer excellent potential for locating economic gold values in view of the underlying geology and the many known zones carrying significant gold values as determined from earlier work. The geometry of the mineralized lenses is such that they could be easily missed by spacing drill holes too far apart as well may have been the case in prior drilling with holes at often widely spaced intervals.

The economic environment for this property with gold prices now approximately four times that prevailing during the period of the earlier work, is clearly far more significant.

Uranium Property – Elliot Lake Area, Ontario

Your Company owns a well located uranium property in the Elliot Lake area which is the leading uranium producing district in Canada. Production commenced at a number of mines in this district in the second half of the 1950's, spurred by the urgent demand for this new energy fuel with active sponsorship by the U.S. Government which entered into contractual arrangements that involved sales contracts totalling some $500 million.

After the initial surge of activity, interest in the search for new uranium deposits waned with prices for uranium weakening to a level at which Canadian Government price support and stockpiling became necessary. Even as recently as the late 1960's the price for uranium was approximately $6.00 per lb., remaining close to that level until late 1974 when it advanced to $8.00 per lb. (U.S.). This

compares with a current range around $20-$30 per lb., with spot sales up to $40 per lb.

The dramatic transition from over-abundant supply and weak price structure to scarcity and soaring prices has fueled dynamic new impetus to the search for additional uranium reserves.

The 17-claim property of Mentor which was acquired during the early Elliot Lake uranium boom of the late 1950's and retained through the years, has now assumed important status. The property was tested by only one hole drilled many years ago at a time when the technology for accurate and straight drilling was far below current standards. Limited surface drilling in the 1960's indicated the uraniferous conglomerate ore assay boundary at the 1960 uranium prices at an estimated distance approximately 1,000 feet north of the Mentor boundary with the sub-marginal boundary (at 1960 prices) crossing the claim-group at one locality.

Recent geological work by the Geological Survey of Canada shows a large, broad band of medium grade uraniferous conglomerate in the Lower Mississagi Formation in the vicinity of the Mentor property. The results of the G.S.C. work are expected to be published in early June of this year.

Your Company's consultant has tentatively selected a location for a proposed deep hole designed to intersect the uraniferous-bearing conglomerate at a depth of 4,000 feet. The anticipated cost of this hole, including an allowance for contingencies, is estimated at approximately $100,000. This cost is based on the assumption that the hole may require up to 4,500 feet of drilling to reach the target depth. However, with the use of BQ rods and other control instruments it may be possible to keep the hole close to vertical in which case the cost would be significantly lower.

The appended map locates the Mentor property in relation to the large Denison Mines' assemblage of claims which includes their substantial mining operation. It is noted that the two shafts on the former producing Stanrock mine are within a half mile of the northern boundary of the Mentor property. The Can-Met property, which like the Stanrock is now owned by Denison, is also contiguous to the north of the Mentor boundary. According to earlier drilling (1956) on the Can-Met property, reserves of at least six million tons at 0.10% U_3O_8 were calculated covering an area not exceeding six 40-acre claims. This grade of ore at 1956 prices would have a gross value of about $16.00 per ton; today's prices of up to four times the 1956 levels, provide a totally different economic situation.

Your Company proposes to drill at least one hole to test this well located property during the current year. The grade requirements under existing and projected future prices are much less demanding than those prevailing even two years ago.

General and Financial Data

From its base of equity participation in affiliate Agnico-Eagle Mines Limited, now established as one of Canada's important gold producers and with a life expectancy matched by few other gold mines in North America, your Company has clearly expanded its interests in both gold exploration and potential production through its Lake Expanse Property and the equity interest in Dumagami Mines Limited.

The exploration potential of the uranium property in the Elliot Lake area of Ontario provides a most interesting added diversion for this predominantly gold oriented enterprise.

Working capital at December 31, 1975 of $1,580,459 shows a decrease of $732,420 from the comparative figure at year end 1974 of $2,312,879. This is substantially the effect of the depreciated market values for its principal assets and given a more favorable gold climate, as expected over the medium and long term, there is reason to anticipate an appreciable improvement in your Company's financial base.

On behalf of the Board of Directors,

Paul Penna

President

May 27, 1975

BALANCE SHEET

ASSETS

CURRENT

Marketable securities, at lower of cost and market (market value $3,397,761; 1974 — $5,171,056)

Loans receivable

Accrued interest receivable

INVESTMENTS, at cost (Note 2) (market value $746,474; 1974 — $734,358)

MINING CLAIMS AND PROPERTIES, at cost

FIXED, at cost

Office furniture

Less: Accumulated depreciation

DEFERRED EXPLORATION EXPENDITURES (Note 1)

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Bank indebtedness, secured by certain securities

Payable to brokers, secured by certain securities

Accounts payable and accrued charges

Loans payable — 10%

SHAREHOLDERS' EQUITY

Capital

Authorized

5,000,000 Shares, without par value

Issued and Fully Paid

3,455,746 shares

RETAINED EARNINGS

The accompanying notes form an integral part of these financial statements.

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

As at December 31 1975	1974
$1,931,765	$1,806,023
173,600	1,898,600
43,709	40,267
2,149,074	3,744,890
867,005	307,350
125,880	125,880
3,384	3,384
3,384	3,251
—	133
66,904	66,084
$3,208,863	$4,244,337
$ 325,590	$ 627,533
235,452	371,684
7,573	36,994
—	395,800
568,615	1,432,011
1,802,966	1,802,966
837,282	1,009,360
2,640,248	2,812,326
$3,208,863	$4,244,337

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Mentor Exploration and Development Co., Limited as at December 31, 1975 and the statements of administrative expenses, revenue and retained earnings, deferred exploration expenditures and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL
Chartered Accountants

Toronto, Ontario.
February 20, 1976.

Approved on behalf of the Board of Directors:

PAUL PENNA, Director.

ARCHIE BASEN, Director.

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

STATEMENT OF ADMINISTRATIVE EXPENSES, REVENUE AND RETAINED EARNINGS

	Year Ended December 31 1975	1974
EXPENSES		
Administration and office services	$ 10,800	$ 10,800
Interest and bank charges	85,637	122,135
Legal and audit	13,772	7,994
Shareholders' information	9,541	10,787
Property examination consulting fees	16,025	7,998
Transfer agent fees	4,655	6,435
Miscellaneous	3,627	5,288
Depreciation, office furniture	133	339
Directors' fees	900	550
	145,090	172,326
Less: Gain (Loss) on sale and revaluation of marketable securities and investments	(110,848)	617,343
Interest and dividends earned	83,860	167,785
	(26,988)	785,128
NET REVENUE (LOSS) BEFORE TAXES	(172,078)	612,802
Provision for income taxes	—	174,782
NET REVENUE (LOSS) BEFORE EXTRAORDINARY ITEM	(172,078)	438,020
Utilization of prior years' unrecorded deferred tax benefit	—	174,782
NET REVENUE (LOSS) FOR THE YEAR	(172,078)	612,802
RETAINED EARNINGS, beginning of year	1,009,360	396,558
RETAINED EARNINGS, end of year	$ 837,282	$1,009,360

The accompanying notes form an integral part of these financial statements.

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

STATEMENT OF DEFERRED EXPLORATION EXPENDITURES

	Year Ended December 31 1975	Year Ended December 31 1974
EXPENDITURES DURING YEAR		
Licences, fees and taxes	$ 820	$ 671
DEFERRED EXPLORATION EXPENDITURES — beginning of year	66,084	65,413
DEFERRED EXPLORATION EXPENDITURES — end of year	$ 66,904	$ 66,084

SUMMARY OF DEFERRED EXPLORATION EXPENDITURES

	As at December 31 1975	As at December 31 1974
Hill Group, Ontario	$ 64,146	$ 63,619
Halet Group, Ontario	2,037	1,952
Chandler Group, Ontario	556	513
Belleterre Area, Quebec	165	—
	$ 66,904	$ 66,084

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31 1975	1974
SOURCES OF WORKING CAPITAL		
Gain on sale of marketable securities	$ —	$ 625,953
Interest and dividends earned	83,860	167,785
Repayment of advances to other companies	82	29,338
	83,942	823,076
APPLICATIONS OF WORKING CAPITAL		
Administrative expenses	145,090	172,326
Less: Depreciation, a non-current charge to income	133	339
	144,957	171,987
Loss on sale and revaluation of marketable securities	110,848	—
Acquisition of investments	559,737	97,500
Exploration expenditures	820	671
Acquisition of mining claims and properties	—	50,000
	816,362	320,158
INCREASE (DECREASE) IN WORKING CAPITAL	(732,420)	502,918
WORKING CAPITAL — beginning of year	2,312,879	1,809,961
WORKING CAPITAL — end of year	$1,580,459	$2,312,879

The accompanying notes form an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 1975

1. ACCOUNTING POLICY

   The company follows the policy of deferring exploration expenditures until such time as the properties commence production. Properties determined to be of little or no value are written down to nominal value and deferred exploration thereon is written off to deficit. The amounts shown for deferred exploration expenditures are not intended to reflect present or future values.

2. INVESTMENTS

   During the year the company purchased by private placement 500,000 shares of Dumagami Mines Limited at $1.10 per share for a total consideration of $550,000. In addition, the company purchased 16,500 shares on the market for $9,737. The quoted market value on December 31, 1975 for these shares was 75¢ per share ($387,375).

3. COMMITMENTS

   The company has guaranteed the bank indebtedness of two affiliated companies, which amounted to approximately $561,000 at December 31, 1975. In connection with one guarantee, 500,000 shares of Dumagami Mines Limited have been lodged as collateral.

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